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SUBJECT: AMLO ADVISOR TALKS "FISCAL DISCIPLINE" WHILE
MADRAZO AND CALDERON TURN TO POPULISM

Ref:

SUMMARY

¶1. (SBU) While economist Rogelio Ramirez de la O tried to soothe concerns about Andres Manuel Lopez Obrador's (PRD) intentions for the country's fiscal and monetary policies; Felipe Calderon (PAN) and Roberto Madrazo (PRI) adopt populist tints in their own speeches. Ramirez de la O said AMLO will maintain fiscal discipline and inflation control; Calderon said he will modify the monetary policy by eliminating the "corto" to promote competitiveness; and Roberto Madrazo outlined proposals to improve the country's competitiveness, stressing the importance of structural reforms. End summary.

AMLO WILL ASSURE FISCAL RESPONSIBILITY

¶2. (SBU) In press interviews the first week of April, AMLO's economic advisor, Rogelio Ramirez de la O, tried to calm concerns about the PRD candidate's plans for inflation control and fiscal discipline. He emphasized that fiscal prudence and inflation control will be their priority and that they would not increase the government's indebtedness significantly. Ramirez de la O's comments came after Lopez Obrador stated that the well-respected Bank of Mexico's governor, Guillermo Ortiz, should resign. AMLO has also expressed the need to modify the Bank of Mexico's objective to include economic and employment growth. Ramirez de la O said that AMLO's rhetoric was just a campaign strategy, and he didn't foresee any changes to the way the central bank operates. The next step in AMLO's campaign is to try to soothe private sector groups that have expressed deep concerns about his proposals. Ramirez de la O explained that AMLO's contribution to competitiveness will be to reduce energy prices through cuts of Pemex's bureaucracy costs, jobs and benefits - such as travel expenses. A vigorous Pemex restructuring, he said, would allow savings for up to USD 2 billion annually and finance the planned reduction in domestic energy prices.

MADRAZO TALKS ABOUT COMPETITIVENESS

¶3. (SBU) At the annual convention of the National

Telecommunications Chamber held in Veracruz March 30, Roberto Madrazo took a page out of AMLO's populist book, complaining about the failure of the current "neo-liberal" model and spoke of his plans to improve the country's competitiveness. As on previous occasions, Madrazo spoke of the country's lag in competitiveness, without providing much detail on his proposals. His project includes achieving a "systemic competitiveness," in which each productive chain has to become more competitive. He said, for example, that he will strengthen the agricultural sector through more infrastructure and new distribution channels. To make the manufacturing sector more competitive, Madrazo proposed reducing energy prices, improving access to new technologies, reducing transportation costs and a making labor markets more flexible. His fiscal "reform" includes a more independent Tax Administration Agency, a lower income tax to increase the taxpayer base, and a simplification of the tax system. Madrazo said he would support a reform to the pension systems to guarantee its financial viability. He concluded that, "without reforms, there is no competitiveness."

¶4. (SBU) Madrazo also spoke on competitiveness in the telecommunications sector and technological convergence. On the so-called Convergence Agreement being drafted by the Ministry of Communications and Transportation (SCT), which would allow cable TV companies to provide direct telephone services and Telmex to provide video, Madrazo said he was concerned about the sector's rush in having it passed 90 days before the elections. Madrazo fears that a bad agreement would injure the whole sector if it failed to promote a fair competition. When asked what he would do to eliminate monopolies such as Telmex, Madrazo avoided the question - answering that he would promote fair competition,

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a public telecommunications policy, and a stronger Federal Communications Commission independent from SCT, capable of sanctioning and regulating the sector more effectively.

CALDERON SAYS "CORTO" INJURES COMPETITIVENESS

¶5. (SBU) Motivated by a technical tie with AMLO in recent PAN internal polls, Felipe Calderon criticized the use of the corto by the Bank of Mexico. Calderon alleges that the corto, as a monetary policy tool, distorts the exchange rate and thus, the country's competitiveness. Although Calderon said he firmly believed in the central bank's independence and in a flexible exchange rate, he proposed the creation of public policies to promote competitiveness and stimulate exports with lower interest rates and a weaker peso. Calderon said he would "request" through the Ministry of Finance that the Bank of Mexico apply a neutral monetary policy and that the corto be used only in exceptional cases. (Comment: the Bank of Mexico has been gradually transiting to the use of a reference rate as a tool to control inflation. End comment)

COMMENT

¶8. (SBU) Following front-runner AMLO's strategy, Madrazo and Calderon have begun adding populist tints to their recent speeches: Madrazo's criticism of "neo-liberalism" is something we have heard frequently in AMLO's speeches. Likewise, Calderon casting blame on the central bank's monetary policy for the lack of competitiveness. Perhaps they have concluded that such rhetoric is useful for their political campaigns. But - as Ramirez de la O pointed out when defending AMLO - it doesn't mean they will act as they preach when they come to power. In any event, their tactic is not succeeding in soothing investors, who no doubt aren't sure how much is rhetoric and how much is real.

